



INSPECTOR GENERAL
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MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
AUDITOR GENERAL, ARMY AUDIT AGENCY
AUDITOR GENERAL, NAVAL AUDIT SERVICE
AUDITOR GENERAL, AIR FORCE AUDIT AGENCY

SUBJECT: FY 2002 Military Department Audit Agencies External Quality Control
Reviews

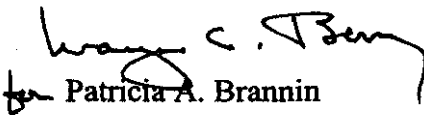
Government auditing standards issued by the Comptroller General of the United States require that organizations conducting Government audits have an appropriate internal quality control system in place and undergo an external quality control review. Organizations conducting audits should undergo an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. Previously, the Inspector General of the **DoD** had conducted external quality control reviews of the Military Department audit agencies. However, during the September 25, 1998, **DoD** Audit Chiefs Council meeting it was agreed that the Military Department audit agencies would conduct external quality control reviews on each other in FY 1999. At that time, the Military Department audit agencies successfully completed external quality control reviews of each other. At the January 18, 2002, Audit Chiefs meeting it was agreed that the round robin reviews would continue as in the past. It was also agreed, that the financial audit area would be included in the peer review and that the Inspector General of the **DoD** would provide oversight during the process **including** attendance of planning meetings and making field visits. The results of our oversight are summarized below.

Results of Review. We **determined** that reliance could be placed on the external quality control review results to **support** the IG **DoD** responsibilities for oversight of the Military Department audit agencies. The audit agencies used the February 2002 President's Council on Integrity and Efficiency guide for conducting external quality control reviews. For each of the reviews, the three review teams reported that the quality control system was designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency. Further, the review teams reported that each organization's internal quality control system was operating effectively to provide reasonable assurance that audit personnel were following established policies, procedures, and applicable reporting standards. In addition, each of the review teams made observations and suggested actions to the audit agencies on nonmaterial areas of concern to strengthen their systems of quality control. We concur with the results of those reviews by the Military Department audit agencies.

Inspector General of the **DoD** Followup. Because some of the areas identified as deficiencies are repeat issues from the FY 1999 peer review, we will conduct a **followup** review during **FY 2003** to determine the status of the identified issues and the actions taken to implement the peer review suggested actions.

Reliance on the Military Department Audit Agency External Quality Control Review. We **performed** several **procedures** to **provide** a basis for reliance on the **Military** Department **audit** agencies **review** results and **to** ensure that the President's Council on Integrity and Efficiency guidance was consistently applied. We attended planning meetings, monitored progress throughout the external quality control reviews, accompanied Military Department audit agency review staff members on site visits, and met with review staff members. We also reviewed the working papers of the review staff members, evaluated the key judgments made, and independently retested data to verify the validity of auditor conclusions. The Air Force Audit Agency did not include the Army Audit Agency audit of Corps of Engineers, Civil Works FY 2001 Financial Statements as part of **the** universe of Army Audit Agency audits. At the time of the peer review the Inspector General of the **DoD** Defense Financial Auditing Service was reviewing the project. Because the project was under review, we did not consider it within the boundaries of the peer review, therefore, there was no limitation of scope.

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